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Higher Learning, Greater Good: The
Private and Social Benefits of Higher
Education by Walter W. McMahon

Reviewed by
David Shulenburg
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REVIEWED BY DAVID SHULENBURGER, VICE PRESIDENT FOR ACADEMIC AFFAIRS, ASSOCIATION OF PUBLIC AND LAND-GRANT UNIVERSITIES

"Higher education markets do not function well if there is poor information," says Walter McMahon (p. 176); and with this book, he provides evidence that the information individuals and governments work with is poor. He corrects that deficiency and makes many public policy recommendations to ensure that the problems caused by poor information are likewise corrected.

This extraordinary book patiently, thoughtfully, and thoroughly provides the conceptual framework for understanding the higher education market, the empirical findings about what that market produces and the policy prescriptions needed to make it work better in the future. Walter McMahon's summary and synthesis of both his research and that of others is a marvelous capstone to his career and a great service to higher education.

McMahon opens with chapters intended to contextualize for the reader the detailed analyses that follows. My sole criticism of the book is that these first two chapters would have served the reader and the argument better had they been terser, launching the reader more quickly into the extraordinary presentation of evidence on returns on higher education that follow. While the arguments and evidence in these two chapters have worth, the path-breaking value to most will be found in the chapters on the direct market returns, nonmarket returns, and social returns that follow.

The third chapter focuses on the individual and social rates of return on higher education and the relationship between higher education and economic growth. His robust conclusion is: "[T]here are significant increases in the earnings of college graduates over those of high school graduates of the same age and sex that persist throughout their life cycles . . . with increments . . . growing very significantly since 1980" (pp. 115-116).

McMahon readily rules out the possibility that these differentials are attributable to screening or to job market signaling by referring to both empirical work and common sense economics: "[F]ew employers are likely to be so out of touch with their own bottom line that they continue to pay higher wages . . . to those with a college degree . . . even though they are unproductive" (p. 113). He examines the murkier relationship between higher education and economic growth; and once the interaction effect between technology and higher education and the indirect effects from education or growth are accounted for, McMahon concludes that there is a robust relationship between higher education and growth (p. 117).

The title of one chapter, "Private Non-Market Benefits of Higher Education and Market Failure," telegraphs McMahon's thesis that failure to account for nonmarket benefits of education and the consequent failure to let young people know about them, accounts for much underinvestment in education by individuals.

The four-page Table 4.3, “The Value of Private, Non-Market Returns to Higher Education,” and the accompanying text is itself worth the price of the book. Here McMahon extracts from his own empirical work and that of others the monetary value to recipients of bachelor’s degrees, benefits ranging from smoking cessation to cognitive development, to family size and happiness and finally to “consumption efficiency.”

He concludes (p. 159) that the nonmarket individual benefits of a bachelor’s degree (\$38,080) amount to 122% of the market benefits of the bachelor’s (\$31,747). Obvious to any economist is the difficulty inherent in summing into a single number benefits from many diverse studies, but McMahon acknowledges these difficulties and explains (with a degree of rigor appropriate to a work intended for generalists) how he overcame the interpretative and statistical difficulties. His strong recommendation is that universities and the Department of Education make every effort to get estimates of these benefits to students so that they may use the knowledge as they make their higher education decisions.

The chapter on the social benefits of higher education is equal in importance to the nonmarket chapter. Table 5.4, “The Direct Social Benefits Externalities of Education” (pp. 232-235), details those benefits. They range from democratization, lower crime, and cleaner water, to increased happiness. The bottom line is that social benefits add \$27,726 to the annual incremental value of a bachelor’s degree (p. 233). The same caveat about the difficulties of such a summation applies here as above, but these difficulties are appropriately acknowledged.

McMahon now reaches a bottom line: The incremental annual value of a bachelor’s degree is the sum of the market benefits (\$31,174), the nonmarket private benefits (\$38,080), and the nonmarket social benefits (\$27,726), for a total value of \$97,180 in 2007 constant dollars (p. 240). The policy implications become obvious: Just as failure to understand the value of private nonmarket benefits of education leads to individuals’ underinvestment in higher education, failure to account for social benefits leads to society’s underinvestment in higher education.

The concluding chapter on higher education policies follows directly from the book’s finding that nonmarket value created by higher education for the individual and society has been systematically ignored or underestimated. Proper estimation and inclusion of higher education’s values in individual and collective decision-making should lead to increased investment.

His policy recommendations range from the obvious, “provide better information,” to shifting aid from merit-based to need-based scholarships, to deliberately targeting a specific proportionate increase in enrollment rates, to creating a higher education entitlement for lower-income students. Given President Barack Obama’s goal of having every American receive appropriate postsecondary education, these policy prescriptions should be studied carefully and used to inform development of the new administration’s higher education policy.

Sophisticated and highly technical analytical work often has little effect on policy. Most readers simply pass over such analyses as being too complex for nonexperts to understand. Such a fate for this work, which is informed by the entirety of McMahon’s career, would be unfortunate. While experts legitimately quibble about the size of individual effects, the relative size of the bottom line remains evident to all. We are in debt to Walter McMahon for presenting this remarkably valuable collage of research on higher education. The most appropriate response to McMahon’s effort would be for this work to inform new policies on higher education that reflect what four decades of empirical research tell us about the total value of higher education.